

Message Text

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72

ACTION EUR-25

INFO OCT-01 IO-12 ADP-00 EA-11 EB-11 COME-00 TRSE-00 FRB-02

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INFO USMISSION GENEVA

AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

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AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

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PASS TREASURY, FRB AND CEA

E. O. 11652: N/ A

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SUBJ: MOVEMENTS OF SPECULATIVE CAPITAL

REF: STATE 081989 (NOTAL)

1. SUMMARY. SINCE THERE ARE NO COMMUNITY- LEVEL CAPITAL CONTROLS

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AS SUCH, THIS MESSAGE WILL NOT ANSWER ALL THE REFTEL QUESTIONS POINT BY POINT BUT RATHER WILL DISCUSS THE GENERAL QUESTION OF CONTROLS FROM THE POINT OF VIEW OF THE EC COMMISSION. A NEW WORKING GROUP OF THE EC MONETARY COMMITTEE HAS BEEN FORMED TO ASSESS THE EFFECTIVENESS OF EXISTING CONTROLS IN THE COMMUNITY WITH A VIEW TO DISCARDING THOSE THAT ARE FOUND TO BE INEFFECTIVE AND GENERALIZING THOSE THAT ARE MORE EFFICIENT. THE COMMISSION RECOGNIZES THAT, PARADOXICALLY, REDUCED MONETARY FLEXIBILITY WITHIN THE COMMUNITY AS A RESULT OF THE JOINT FLOAT TENDS TO LEAD TO MORE CONTROLS WITHIN THE COMMUNITY THAN BETWEEN THE COMMUNITY AND THIRD COUNTRIES. END SUMMARY.

2. ALTHOUGH THERE ARE NO COMMUNITY- LEVEL CCAPITAL CONTROLS, AN EC COUNCIL DIRECTIVE OF MARCH 21, 1972 (OFFICIAL JOURNAL NOM L/91 OF APRIL 18, 1972), REQUIRES EACH MEMBER STATE TO HAVE AT ITS DISPOSAL AN ARSENAL OF INSTRUMENTS TO CONTROL CAPITAL FLOWS AND NEUTRALIZE THEIR EFFECTS ON INTERNAL LIQUIDITY. IN KEEPING WITH THE GOAL OF ECONOMIC AND MONETARY UNION, THE COMMISSION IS OSTENSIBLY WORKING ON WAYS TO LIBERALIZE CAPITAL MOVEMENTS WITHIN THE COMMUNITY WHILE PRESERVING CONTROLS BETWEEN THE COMMUNITY AND THIRD COUNTRIES. IT IS FULLY AWARE, HOWEVER, OF THE TECHNICAL DIFFICULTIES OF SUCH AN ARRANGEMENT. IT IS ALSO RESIGNED TO THE EXISTENCE OF CONTROLS IN THE PRESENT CIRCUMSTANCES, EVEN THOUGH THESE ARE IN CONFLICT WITH EARLIER DIRECTIVES PRESCRIBING FREER CAPITAL MOVEMENTS WITHIN THE COMMUNITY.

3. A WORKING GROUP OF THE EC MONETARY COMMITTEE IS CURRENTLY MAKING AN INVENTORY OF CAPITAL CONTROLS APPLIED BY THE MEMBER STATES. THE GROUP, WHICH HAS ALREADY MET ONCE, WILL STUDY THE DIFFERENCES, SIMILARITIES, EFFECTIVENESS AND NECESSITY OF VARIOUS CONTROL MEASURES. THE GOAL OF THE GROUP IS TO PRESS FOR THE ELIMINATION OF CONTROLS THAT PROVE INEFFECTIVE OR UNNECESSARY AND GENERALIZE AMONG THE MEMBER STATES THOSE MEASURES THAT ARE JUDGED MOST EFFICIENT. COMMISSION OFFICIALS BELIEVE THE WORK OF THIS SUBCOMMITTEE IS POTENTIALLY IMPORTANT, ALTHOUGH THERE IS SOME CONCERN THAT ITS CONCLUSIONS MAY NOT BE ACCEPTABLE TO THE MEMBER STATES.

4. COMMISSION OFFICIALS BELIEVE THAT NO CONTROLS ARE COMPLETELY EFFECTIVE AND THAT IT IS NOT EASY TO DISTINGUISH BETWEEN THOSE THAT ARE EFFECTIVE AND THOSE THAT ARE NOT. IF FRANCE, FOR EXAMPLE, LIMITED OFFICIAL USE

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HAS SUFFERED LESS FROM CAPITAL INFLOWS THAN OTHER MEMBER STATES, IT IS DIFFICULT TO KNOW WHETHER THIS IS BECAUSE CONTROL MEASURES ARE MORE EFFICIENT OR BECAUSE THE PRESSURE OF INFLOWS HAS BEEN LESS. COMMISSION OFFICIALS MAKE A DISTINCTION BETWEEN MEASURES TO DISCOURAGE INFLOWS WITHOUT STOPPING THEM, SUCH AS TWO- TIER SYSTEMS AND THE GERMAN BARDEPOT, AND MORE STRINGENT CONTROLS DESIGNED TO BLOCK CAPITAL MOVEMENTS ALTOGETHER. THE COMMISSION

BELIEVES THE LATTER CATEGORY IS INCONSISTENT WITH THE GOAL OF ECONOMIC AND MONETARY UNION.

5. RE ITEM 5 REFTTEL, COMMISSION OFFICIALS NOTE THAT FRANCE STILL MAINTAINS CONTROLS ON CAPITAL OUTFLOWS GOING BACK TO 1968, ALTHOUGH SUCH CONTROLS HARDLY SEEM NECESSARY IN THE PRESENT CIRCUMSTANCES. THEY SAY FRANCE HAS BEEN RELUCTANT TO GET RID OF THEM LEST THEY HAVE TO BE RESURRECTED AT A LATER DATE. THE COMMISSION BELIEVES USCH AN APPROACH -- THAT IS, RELYING ON SAFEGUARD MEASURES FOR ALL EVENTUALITIES -- ONLY RESULTS IN GREATER PROLIFERATION OF CONTROLS OF ALL SORTS. CIVIL SERVANTS APPEAR TO THRIVE ON CONTROLS AND THE COMMISSION RECOGNIZES THAT THIS PHENOMENON TENDS TO PERPETUATE CONTROLS THAT HAVE OUTLIVED THEIR USEFULNESS.

6. RE POINT 7, COMMISSION OFFICIALS NOTE THAT THE JOINT FLOAT TENDS TO REDUCE THE NEED FOR CONTROLS VIS- A- VIS THIRD COUNTRIES TO THE EXTENT THE FLOAT IS CLEAN. ON THE OTHER HAND, THE REDUCED MONETARY FLEXIBILITY WITHIN THE COMMUNITY TENDS TO PERPETUATE THE MAINTENANCE OF INTRA- COMMUNITY CONTROLS -- ALL OF WHICH IS THE OPPOSITE OF WHAT THE COMMISSION PURPORTS TO BE SEEKING, NAMELY, FREER CAPITAL MOVEMENTS WITHIN THE COMMUNITY AND CONTROLS VIS- A- VIS THE OUTSIDE WORLD.

7. RE POINT 8, COMMISSION OFFICIALS ARE NOT AWARE OF ANY NEW CONTROLS LIKELY TO BE IMPLEMENTED WITHIN THE NEXT SIX MONTHS. RENEWED MONETARY TENSION, HOWEVER, COULD OF COURSE TRIGGER NEW CONTROLS.

8. RE POINT 9, COMMISSION OFFICIALS BELIEVE THAT MOST CAPITAL CONTROL MEASURES ARE NOT VERY EFFECTIVE IN THE FACE OF STRONG SPECULATIVE PRESSURES. THE GREATER THE PRESSURE, THE LESS THE EFFECTIVENESS OF THE CONTROLS AND THE GREATER THE RELIANCE ON STILL MORE CONTROLS. WHILE COMMISSION OFFICIALS REGRET THIS STATE LIMITED OFFICIAL USE

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OF AFFAIRS, THEY RECOGNIZE THAT GETTING RID OF CONTROLS ASSUMES FAR GREATER HARMONIZATION OF ECONOMIC POLICIES THAN NOW EXISTS IN THE COMMUNITY.
GREENWALD

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